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Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /114 W
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R 301039Z AUG 77
FM AMEMBASSY BERN
TO SECSTATE WASHDC 4852
AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

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USMTN ALSO FOR MISSION

USOECD ALSO FOR EMBASSY

PASS TREASURY AND FRB

E.O. 11652: N/A
TAGS: EFIN, SZ
SUBJECT: SWISS FINANCIAL REVIEW: WEEK OF AUGUST 21-27

1. SUMMARY: SWISS FRANC APPRECIATED AGAINST MOST CURRENCIES IN NERVOUS MARKET. DOMESTIC STOCK PRICES REMAINED FIRM. FEDERAL COUNCIL SENT PARLIAMENT PACKAGE OF MEASURES TO REDUCE EXPECTED 1978 FEDERAL BUDGET DEFICIT FROM SF 2.1 BILLION TO SF 1.2 BILLION. MOST BANKS HAVE SIGNED AGREEMENT WITH SNB ON CONDITIONS FOR ACCEPTING NEW FOREIGN DEPOSITS (BERN 2520).
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CREDIT SUISSE BOUGHT PARTICIPATING INTEREST IN MOROCCAN BANK.
END SUMMARY.

2. FOREIGN EXCHANGE AND GOLD: DOLLAR RATE AGAINST SWISS FRANC FELL ABRUPTLY, REACHING RECORD LOW OF SF 2.3755 AUGUST 25. DEALERS SAID DOLLAR RATE DECLINE REFLECTED JULY US TRADE DEFICIT AND DOWNTURN IN INDEX OF US LEADING ECONOMIC INDICATORS, AS

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WELL AS GENERAL SWISS FRANC APPRECIATION AGAINST OTHER CURRENCIES. FRENCH FRANC RATE HIT RECORD LOW OF SF 0.4840 AT FRIDAY CLOSING IN GENEVA. SWISS NATIONAL BANK INTERVENED TO SUPPORT DOLLAR RATE. GOLD PRICE ROSE SLIGHTLY IN QUIET MARKET. DEALERS SAID DOWNWARD PRESSURE ON PRICE CAME FROM SALES ON US MARKET BUT PRICE REMAINED STABLE DUE TO INCREASED DEMAND FROM EUROPEAN INDUSTRY AND MIDDLE EAST INVESTORS. DELAERS EXPECT THIS TREND OF SALES AND PURCHASES TO CONTINUE WITH SLIGHT UPWARD PRICEMOVEMENT. RATES FOLLOW:

	8/22 (OPEN)	8/26 (CLOSE)
SPOT DOLLAR	2.4140	2.3775
FORWARD DISCOUNTS (PERCENT PER ANNUM)		
ONE MONTH	4.23	3.63
TWO MONTHS	4.11	3.83
THREE MONTHS	4.20	3.09
SIX MONTHS	3.72	3.49
TWELVE MONTHS	3.46	3.42
SF/DM	103.82	102.69
GOLD	144	144.75

3. CAPITAL AND MONEY MARKETS: STOCK PRICES REMAINED FIRM DESPITE SOME PROFIT-TAKING; SKA INDEX SLIPPED 0.2 PERCENT TO 232.7. DEALERS REPORTED INVESTMENT TREND TO SWISS BEARER SHARES
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FROM US AND WEST GERMAN STOCKS, REFLECTING SWISS FRANC APPRECIATION AGAINST DOLLAR AND DM. EURO-FRANC SHORT-TERM RATES ROSE SLIGHTLY. AVERAGE YIELD CONFEDERATION BONDS SLIPPED TO 4.08. INTEREST RATE FOR PUBLIC LOAN ISSUES BY FIRST CLASS DOMESTIC BORROWERS DROPPED TO 4.25 PERCENT WHILE THOSE FOR FIRST CLASS FOREIGN BORROWERS ARE ABOUT 5 PERCENT.

4. FEDERAL FINANCIAL PACKAGE: FEDERAL COUNCILOR CHEVALLAZ ANNOUNCED THAT PACKAGE OF MEASURES DESIGNED TO HELP REDUCE EXPECTED 1978 BUDGET DEFICIT FROM SF 2.1 BILLION TO SF 1.2 BILLION HAVE BEEN SENT TO PARLIAMENT. FEDERAL SPENDING WILL BE REDUCED SF 208 MILLION BY CERTAIN ADMINISTRATIVE ADJUSTMENTS, SF 26 MILLION IN PROJECT REDUCTIONS, AND SF 206 MILLION IN SELECTED BUDGET ITEM REDUCTIONS. FOLLOWING MEASURES ARE EXPECTED TO IMPROVE FEDERAL ACCOUNTS BY ADDITIONAL SF 480 MILLION IN REDUCED EXPENDITURES AND REVENUE INCREASES IN 1978 AND SF 430 MILLION IN 1979:

(A) BREAD SUBSIDIES: REDUCED SUBSIDY PAYMENTS FOR BREAD (SF 100 MILLION INSTEAD OF SF 193 MILLION) WILL RAISE BREAD PRICE BY 5 PERCENT OR SF 0.10 PER KILOGRAM. INCREASED DUTY ON IMPORTED BREAD CEREALS FROM SF 3 TO SF 28 PER 100 KILOGRAMS EFFECTIVE

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AUGUST 26, 1977 WILL BRING IN SF 25 MILLION ADDITIONAL REVENUE.
BREAD CEREALS WILL COST MILLERS ABOUT SF 7 PER 100 KILOGRAMS MORE
AFTER SEPTEMBER 1, 1977, MAKING BREAD COST ABOUST SF2.80 MORE
PER PERSON PER YEAR.

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----------112133 301220Z /40
R 301039Z AUG 77
FM AMEMBASSY BERN
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(B) BUTTER PRICES: AS OF SEPTEMBER 1, WHOLESALE PRICE OF
BUTTER WILL RISE BETWEEN SF 0.39 AND SF 0.44 PER KILOGRAM FOR
MELTED BUTTER; SF 0.50 FOR SPECIAL BUTTER; AND SF 0.60 FOR
COOKING AND TABLE BUTTER. THIS WILL IMPROVE GOVT SUBSIDY ACCOUNTS
BY SF 25.2 MILLION.

(C) MARGARINE: PRICE OF IMPORTED EATABLE FATS AND OILS WILL
RISE FROM SF 75 TO SF 105 PER 100 KILOGRAMS EFFECTIVE SEPTEMBER
1, 1977, RESULTING IN SF 0.35 PER KILOGRAM INCREASE IN PRICE OF
MARGARINE. GOVT SUBSIDY ACCOUNTS WILL BE IMPROVED SF 24 MILLION.

(D) REVENUE SHARING: CONFEDERATION WILL REDUCE CANTONAL SHARE OF
REVENUES COLLECTED BY 15 PERCENT, BRINGING FEDERAL SUBSIDIES TO
CANTONS DOWN BY SF 218 MILLION TO SF 1,238 MILLION.

(E) STAMP TAX WILL BE INCREASED 50 PERCENT WITH NEW RATES AS
FOLLOWS: DOMESTIC BOND ISSUES PAY 3 PERCENT; DOMESTIC STOCK
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TRANSACTIONS PAY 0.3 PERCENT. TAX ON INSURANCE PREMIUMS AND BUSINESS MERGERS WOULD REMAIN UNCHANGED. GOVT REVENUES WOULD INCREASE SF 88 MILLION IN 1978 AND SF 160 MILLION IN 1979.

(F) TAX ON TOBACCO WILL BE INCREASED 20 PERCENT (ABOUT SF 0.25 PER PACKAGE OF CIGARETTES) EFFECTIVE SEPTEMBER 1978. PIPE TOBACCO AND CIGARS WILL NOT BE AFFECTED BECAUSE OF PRESENT DIFFICULTIES IN THOSE INDUSTRIES. THIS MEASURE WILL PROVIDE SF 100 MILLION FOR OLD AGE, SURVIVORS AND INVALID INSURANCE FUNDS AND THEREBY HELP REDUCE GOVT CONTRIBUTIONS.

5. GOVERNMENT POLICY: IN ANNOUNCING MREASURES TO REDUCE FEDERAL BUDGET DEFICIT, FEDERAL COUNCILOR CHAVALLAZ SAID GOVT TOOK INTO CONSIDERATION PUBLIC DESIRE FOR REDUCED CONFEDERATION EXPENDITURES TO IMPROVE FEDERAL FINANCES. CHEVALLAZ STRESSED FOLLOWING POINTS:

(A) EXPENDITURES ARE NOT BEING REDUCED IN SUBSTANCE BUT RATHER INCREA
SES
ARE BEING KEPT UNDER CONTROL;

(B) BUDGETS FOR 1977 AND 1978 CONTAIN MEASURES WHICH AIM AT CREATING JOBS;

(C) LEVEL OF INVESTMENTS REMAINS HIGH;

(D) SPENDING ON SOCIAL PROGRAMS INCREASED FROM * 2.5 BILLION IN 1975 TO SF 3.3 BILLION IN 1978;

(E) INCREASED PRICES FOR BREAD AND BUTTER WILL CAUSE CONSUMERS TO SPEND SF 7.20 MORE PER PERSON PER YEAR AND CONSUMER PRICE INDEX WILL RISE BY 0.2 PERCENT.

(F) NEW MEASURES TO STIMULATE ECONOMY ARE NOT POSSIBLE BECAUSE OF BUDGET CONSTRAINTS AND DESIRE TO KEEP INFLATION UNDER CONTROL. MOREOVER, PRESENT ECONOMIC SITUATION, WITH 0.3 PERCENT UNEMPLOY-MENT RATE, WHILE EXPORTS ROSE 12.3 PERCENT AND IMPORTS WERE UP 11.4 PERCENT DURING FIRST SIX MONTHS 1977, DOES NOT JUSTIFY NEW ECONOMIC STIMULATION MEASURES. HOWEVER, CONDITIONS IN SOME SECTORS, NOTABLY CONSTRUCTION INDUSTRY, WARRANT MAINTAINING EXISTING PROGRAMS. CHEVALLAZ SAID GOVT WOULD ASK PARLIAMENT IN DECEMBER TO RAISE BUSINESS TURNOVER TAX TO PROVIDE ADDITIONAL REVENUES UNTIL VALUE ADDED TAX OF 8 PERCENT IS REQUESTED

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SEVERAL YEARS FROM NOW.

6. AGREEMENT ON DEPOSITS: SWISS BANKERS' ASSN REPORTED ONLY ONE OUT OF TOTAL 400 SBA MEMBERS HAVE NOT YET SIGNED JUNE AGREEMENT WITH SNB ON CONDITIONS OF ACCEPTING FOREIGN BANK DEPOSITS. SOME 103 OTHER INSTITUTIONS NOT MEMBERS OF SBA HAVE ALSO SIGNED, OUT OF 116 INVITED.

7. CREDIT SUISSE: CREDIT SUISSE ANNOUNCED PURCHASE OF PARTICIPATING INTEREST IN SOCIETE GENERALE AROCAINE DE BANQUES IN CASABLANCA.
ODELL

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Message Attributes

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Disposition Approved on Date:
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Disposition Comment:
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Disposition Event:
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Executive Order: N/A
Errors: N/A
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Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
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TAGS: EFIN, SZ
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